



Department of Energy
Bonneville Power Administration
P.O. Box 491
Vancouver, Washington 98666-0491

TRANSMISSION BUSINESS LINE

September 3, 2004

In reply refer to: TMF-MODD

Randal E. Gregg
Director of Power Management
Benton PUD
2721 West 10th Avenue
P.O. Box 6270
Kennewick, WA 99336-0270

Dear Mr. Gregg:

Thank you for your August 17th letter. We are pleased to be able to provide you information on the three follow-up questions to the August 5th PIR workshop. The Corporate Finance staff, which gave the presentation on financing sources, provided these responses.

Answer to Question 1. The Power Business Line (PBL) is not a separate legal entity from Bonneville Power Administration (BPA). BPA did not establish as a principle or as a goal of the Debt Optimization program an effort to "ensure that PBL is not disadvantaged by any lost opportunities to optimally structure a refinancing to the benefit of PBL only." BPA takes prudent debt management actions to ensure adequate access to capital for the agency so that both business lines can function to fulfill BPA's statutory obligations.

In developing the debt service reassignment program, five principles were established. Two of these principles address the concern raised in your question. The two principles relevant to your question follow.

1. Between business line transactions arising from the restructuring of Energy Northwest (EN) debt will be made in such a way that neither the business line nor its customers will be any worse off compared to continued BPA access to Treasury borrowing authority.
2. Within the constraints of the repayment methodology, the transactions will make use of low cost capital without permanently foregoing any debt restructuring opportunities.

BPA's goal is to maximize the debt optimization program within the principles stated above, as well as the other three principles (for a list of all five principles, see http://www.bpa.gov/Power/psp/rates/05-06-2002_Letter.pdf). The decision as to which Federal debt (TBL or PBL) to prepay is made on a year-by-year basis and all current facts and projections relating to BPA's and EN's debt play a part in the final determination.

Answer to Question 2. When BPA initiated the debt optimization program, BPA agreed with EN that the maximum maturity for EN debt would be 2018, consistent with the existing maximum maturity for WNP-3 debt (WNP-1 has a maximum maturity of 2017). At the time, Columbia Generating Station (WNP-2) debt had a maximum maturity of 2012, far short of the expected economic life of the plant. BPA targeted the 2013 to 2018 period for debt extension, since there was room to increase principal due in those years without violating the final maturity agreement with EN. Initial analysis showed that only about \$1.2 billion of EN debt could be extended and placed in the FY 2013-18 time period without putting upward pressure on power rates. This effect occurs based on repayment methodology, which seeks the lowest overall debt service stream over a 50-year period. To further explain, having too many bonds due in any given year or period creates debt service spikes. In order to lower the spikes by reducing interest expense, the model may force amortization in pre-spike years to increase. This may result in increased revenue requirements in the near-term, potentially resulting in increased near-term rates. That is why there is only a limited amount of EN debt that can be extended into the years 2013-18 without raising power rates.

Answer to Question 3. BPA is obligated to repay the power portion of the appropriations at U.S. Army Corps of Engineers and Bureau of Reclamation facilities within the BPA system and BPA's pre-Transmission Act appropriations. A change in legislation would be required for BPA to refinance these appropriations, as was done through the BPA Appropriations Refinancing Act of 1996. The BPA Appropriations Refinancing Act required that the outstanding balance of the Federal Columbia River Power System federal appropriations be reset and assigned prevailing market rates of interest as of September 30, 1996. The terms and conditions do not allow for refinancing of this debt.

We hope these responses add clarity to your understanding of debt optimization and debt service reassignment. If you have any follow-up questions, please do not hesitate to call me at 360-418-2861.

Sincerely,

/s/ Madonna R. Radcliff Sept. 3, 2004

Madonna R. Radcliff
Senior Financial Analyst